

ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

ZION RECOVERY SERVICES, INC.

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ZION RECOVERY SERVICES, INC.
Officials
June 30, 2016

Board of Directors:

Jim Richardson, Chairperson

Steve Ratcliff, Vice-Chairperson

Mark Wedemeyer, Secretary-Treasurer

Matt Wedemeyer

Brad Golightly

Cara Marker Morgan

Address

Shenandoah, Iowa

Red Oak, Iowa

Atlantic, Iowa

Casey, Iowa

Perry, Iowa

Hamburg, Iowa

Program Administrator:

Laurie Cooley

Anita, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Zion Recovery Services, Inc. (a nonprofit organization) which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Zion Recovery Services, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. as of June 30, 2016 and 2015, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter - Correction of Misstatement

As discussed in Note J to the financial statements, the 2015 financial statements were restated to correct the accounting and reporting of Financial Accounting Standards Board (FASB) Codification topic 960 - Defined Benefit Pension Plans. Our opinion is not modified with respect to this matter.

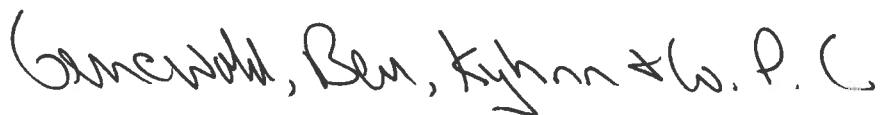
Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016 on our consideration of Zion Recovery Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Zion Recovery Services, Inc.'s internal control over financial reporting and compliance.

Ben Kuhn, CPA

Atlantic, Iowa
September 13, 2016

ZION RECOVERY SERVICES, INC.
Balance Sheets
June 30,

ASSETS

| | <u>2016</u> | <u>2015</u> <u>As Restated</u> |
|---|-------------------|-----------------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 514,107 | \$ 565,943 |
| Certificates of deposit | 218,706 | 168,142 |
| Accounts receivable, less allowance for doubtful accounts (\$22,000 in 2016 and \$38,000 in 2015) | 139,412 | 104,437 |
| Grant receivables | 42,948 | 13,944 |
| Prepaid expense | <u>32,038</u> | <u>24,612</u> |
| Total current assets | 947,211 | 877,078 |
| Property and Equipment, Net | 9,542 | 6,477 |
| Other Asset: | | |
| Investment in IBHN | <u>20,000</u> | <u>20,000</u> |
| Total assets | <u>\$ 976,753</u> | <u>\$ 903,555</u> |

LIABILITIES AND NET ASSETS

| | | |
|------------------------------------|-------------------|-------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 9,322 | \$ 30,953 |
| Accrued employee compensation | 75,497 | 61,423 |
| Payroll taxes withheld and accrued | <u>5,894</u> | <u>4,699</u> |
| Total current liabilities | 90,713 | 97,075 |
| Net Assets: | | |
| Unrestricted | <u>886,040</u> | <u>806,480</u> |
| Total liabilities and net assets | <u>\$ 976,753</u> | <u>\$ 903,555</u> |

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets
Year ended June 30,

| | <u>2016</u> | <u>2015</u> <u>As Restated</u> |
|---|-------------------|-----------------------------------|
| Support and Revenue: | | |
| Support: | | |
| Iowa Department of Public Health - | | |
| Comprehensive Treatment: | | |
| Iowa Managed Substance Abuse | | |
| Care Plan - Non-Medicaid | \$ 959,513 | \$ 876,992 |
| Access to recovery | 21,850 | 2,554 |
| Prevention services | <u>204,619</u> | <u>193,763</u> |
| Total support | <u>1,185,982</u> | <u>1,073,309</u> |
| Revenue: | | |
| Client fees, net | 276,127 | 267,851 |
| Medicaid fees | 364,834 | 361,964 |
| Interest income | 981 | 1,083 |
| Other revenues | <u>80,018</u> | <u>40,679</u> |
| Total revenue | <u>721,960</u> | <u>671,577</u> |
| Total Support and Revenue | 1,907,942 | 1,744,886 |
| Expenses: | | |
| Salaries and wages | 1,003,368 | 942,026 |
| Employee benefits | 336,475 | 300,130 |
| Advertising and promotion | 6,811 | 5,987 |
| Provision for depreciation | 2,275 | 1,939 |
| Food costs | 34,503 | 36,852 |
| Insurance | 11,806 | 12,155 |
| Miscellaneous | 11,705 | 11,076 |
| Professional services | 79,992 | 38,151 |
| Rent | 124,467 | 107,184 |
| Repairs and maintenance | 33,078 | 25,920 |
| Supplies and other expense | 100,719 | 76,180 |
| Telephone | 27,591 | 20,753 |
| Training costs | 15,163 | 10,188 |
| Travel | 36,574 | 38,359 |
| Utilities | <u>3,855</u> | <u>5,546</u> |
| Total expenses | <u>1,828,382</u> | <u>1,632,446</u> |
| Operating Income | 79,560 | 112,440 |
| Loss on Disposal of Assets | <u>--</u> | <u>(1,500)</u> |
| Increase in Unrestricted Net Assets | 79,560 | 110,940 |
| Net Assets at Beginning of Year, as Restated (Note J) | <u>806,480</u> | <u>695,540</u> |
| Net Assets at End of Year | <u>\$ 886,040</u> | <u>\$ 806,480</u> |

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Cash Flows
Year ended June 30,

| | <u>2016</u> | <u>2015</u> <u>As Restated</u> |
|--|-------------------|-----------------------------------|
| Cash flows from operating activities: | | |
| Cash received from clients, third-party payors, and court system | \$ 686,004 | \$ 677,892 |
| Contract funding received | 1,156,978 | 1,076,370 |
| Cash paid to suppliers and employees | (1,839,895) | (1,604,183) |
| Interest received | 981 | 1,083 |
| Net cash provided by operating activities | <u>4,068</u> | <u>151,162</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (5,340) | (4,227) |
| Redemption of certificates of deposit | -- | 108,052 |
| Purchase of certificates of deposit | (50,564) | (693) |
| Net cash provided by (used in) investing activities | <u>(55,904)</u> | <u>103,132</u> |
| Net increase (decrease) in cash and cash equivalents | (51,836) | 254,294 |
| Cash and cash equivalents at beginning of year | <u>565,943</u> | <u>311,649</u> |
| Cash and cash equivalents at end of year | <u>\$ 514,107</u> | <u>\$ 565,943</u> |
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | \$ 79,560 | \$ 110,940 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Provision for depreciation | 2,275 | 1,939 |
| Loss on disposal of assets | -- | 1,500 |
| Changes in assets and liabilities | | |
| Accounts receivable | (63,979) | 10,459 |
| Prepaid expense | (7,426) | (6,905) |
| Accounts payable | (21,631) | 23,353 |
| Accrued employee compensation | 14,074 | 9,518 |
| Payroll taxes withheld and accrued | 1,195 | 358 |
| Total adjustments | <u>(75,492)</u> | <u>40,222</u> |
| Net cash provided by operating activities | <u>\$ 4,068</u> | <u>\$ 151,162</u> |

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term. The Agency is a not-for-profit corporation chartered under the laws of the State of Iowa and is exempt from income tax under Section 501 of the Internal Revenue Code. The Agency is required to file a Form 990 (which is subject to audit by the Internal Revenue Service) annually, to maintain its exempt status. The Agency's open audit periods are for years ended June 30, 2013 through 2016.

2. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

3. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by laws.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years.

6. Unrestricted Revenues and Support

- a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are \$103,603 for 2016 and \$119,531 for 2015.
- b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

7. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

NOTE B - FAIR VALUE MEASUREMENTS

The Agency's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Agency, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The investment in Iowa Behavioral Health Network (IBHN) will result in the Agency having access to a credentialing and billing and collections service. The investment in IBHN is not actively traded and significant other observable inputs are not available. The fair value of the investment in IBHN is based on book value. Management believes this value approximates current fair value.

The following tables set forth, by level within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2016:

| | | Fair Value Measurements at Reporting Date Using: Significant Unobservable Inputs (Level 3) |
|----------------------|-------------------|---|
| <u>June 30, 2016</u> | <u>Fair Value</u> | |
| Investment in IBHN | \$ 20,000 | \$ 20,000 |
| <u>June 30, 2015</u> | | |
| Investment in IBHN | \$ 20,000 | \$ 20,000 |

The following tables reconcile the beginning and ending balances of fair value measurements for the Agency's level 3 assets using unobservable inputs for the years ended June 30, 2016:

| | |
|----------------------|-----------|
| <u>June 30, 2016</u> | |
| Beginning balance | \$ 20,000 |
| Investment in IBHN | -- |
| Ending balance | \$ 20,000 |
| <u>June 30, 2015</u> | |
| Beginning balance | \$ 20,000 |
| Investment in IBHN | -- |
| Ending balance | \$ 20,000 |

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE C - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services were being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. through March 31, 2016. Beginning April 1, 2016, the Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Amerigroup Iowa, Inc. The Agency received approximately 50% of its total support and revenue through these contracts for the year ended June 30, 2016 (50% for 2015). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2017.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-----------------|-----------------|
| Leasehold Improvements | \$ 995 | \$ 995 |
| Equipment | <u>24,127</u> | <u>18,787</u> |
| | 25,122 | 19,782 |
| Less Accumulated Depreciation | <u>15,580</u> | <u>13,305</u> |
| | <u>\$ 9,542</u> | <u>\$ 6,477</u> |

NOTE E - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|---------------------|---------------------|
| Outpatient and Residential Services | \$ 1,497,274 | \$ 1,330,769 |
| Management and General | <u>331,108</u> | <u>301,677</u> |
| | <u>\$ 1,828,382</u> | <u>\$ 1,632,446</u> |

NOTE F - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015, was as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------|-------------|-------------|
| Medicaid | 36% | 24% |
| Wellmark | 23 | 0 |
| Client accounts | <u>41</u> | <u>76</u> |
| | <u>100%</u> | <u>100%</u> |

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - PENSION PLAN

Iowa Public Employees Retirement System

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is identified as a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

Plan members are required to contribute 5.95% of their annual salary and the Agency is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2016 was approximately \$87,000 (\$83,000 in 2015), equal to the required contribution for the year.

NOTE H - LEASE OBLIGATIONS

The Agency has entered into agreements to lease office space under noncancellable operating leases with various lease terms. Lease payments under these agreements for the year ended June 30, 2016 were \$46,917 (\$33,504 in 2015). Future minimum payments under the agreements for the years subsequent to June 30, 2016 are as follows:

| | | |
|------|----|---------------|
| 2017 | \$ | 23,808 |
| 2018 | | <u>13,255</u> |
| | \$ | <u>37,063</u> |

The Agency also has entered into agreements to lease their residential care facility and other office space from various property owners on a month to month basis. Total lease expense associated with these leases was \$77,550 in 2016 (\$73,680 in 2015).

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE I - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Off-Balance Sheet Risk

The Agency maintains its deposits at several banks in the area. At various times throughout the year and at year end, the deposits in one of the banks exceeded the FDIC insured deposits limit for one entity (by approximately \$24,700 for the bank at year end). Management of the Agency has received no indication of any potential viability problems with the bank by the date of this report.

Subsequent Events

The Agency has evaluated all subsequent events through September 13, 2016, the date the financial statements were available to be issued.

NOTE J - CORRECTION OF MISSTATEMENT

Financial Accounting Standards Board (FASB) Codification topic 960 - Defined Benefit Pension Plans was inappropriately applied to the 2015 financial statements. Beginning net assets were restated to retroactively report the removal of beginning net pension liability, as follows:

| | <u>Net Assets</u> |
|--|-----------------------|
| Net assets June 30, 2014, as previously reported | \$ 1,148 |
| Remove Net pension liability at June 30, 2014 | <u>694,392</u> |
| Net assets July 1, 2014, as restated | <u>\$ 695,540</u> |

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - CORRECTION OF MISSTATEMENT - Continued

The following is a summary of the effects of the restatement of the 2015 financial statements:

| | <u>Amounts as Previously Reported</u> | <u>Correction of Misstatement</u> | <u>Amounts as Restated</u> |
|--|---|---------------------------------------|--------------------------------|
| <u>Balance Sheets</u> | | | |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Net pension liability | \$ 456,448 | \$(456,448) | \$ -- |
| Total liabilities | \$ 553,523 | \$(456,448) | \$ 97,075 |
| Net assets | | | |
| Unrestricted | \$ 350,032 | \$ 456,448 | \$ 806,480 |
| Total net assets | \$ 350,032 | \$ 456,448 | \$ 806,480 |
| <u>Statement of Activities and Changes in Net Assets</u> | | | |
| Employee benefits | \$ 253,846 | \$ 46,284 | \$ 300,130 |
| Operating income | \$ 158,724 | \$(46,284) | \$ 112,440 |
| Net change in unrecognized pension costs | \$ 191,660 | \$(191,660) | \$ -- |
| Increase in unrestricted net assets | \$ 348,884 | \$(237,944) | \$ 110,940 |
| Net assets end of year | \$ 350,032 | \$ 456,448 | \$ 806,480 |

* * *

SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures by Activity
Year ended June 30,

| | 2016 | | | | | 2015 |
|----------------------------|--------------------------|------------------------|-------------------------|------------------------|--------------------|--------------------|
| | ATR & DUI Services | Outpatient Services | Residential Services | Prevention Services | Total | Total |
| Salaries and wages | \$ 925 | \$ 642,313 | \$ 239,877 | \$ 120,253 | \$1,003,368 | \$ 942,026 |
| Employee benefits | -- | 218,594 | 85,995 | 31,886 | 336,475 | 300,130 |
| Advertising and promotion | -- | 6,328 | 483 | -- | 6,811 | 5,987 |
| Provision for depreciation | -- | 2,275 | -- | -- | 2,275 | 1,939 |
| Food costs | -- | -- | 34,503 | -- | 34,503 | 36,852 |
| Insurance | -- | 8,134 | 3,672 | -- | 11,806 | 12,155 |
| Miscellaneous | 190 | 11,515 | -- | -- | 11,705 | 11,076 |
| Professional services | -- | 52,381 | 22,265 | 5,346 | 79,992 | 38,151 |
| Rent | -- | 103,737 | 20,730 | -- | 124,467 | 107,184 |
| Repairs and maintenance | -- | 23,260 | 9,818 | -- | 33,078 | 25,920 |
| Supplies and other expense | 13,712 | 57,254 | 13,867 | 15,886 | 100,719 | 76,180 |
| Telephone | -- | 23,107 | 4,484 | -- | 27,591 | 20,753 |
| Training costs | -- | 2,136 | 1,959 | 11,068 | 15,163 | 10,188 |
| Travel | 307 | 23,008 | 2,299 | 10,960 | 36,574 | 38,359 |
| Utilities | -- | 3,855 | -- | -- | 3,855 | 5,546 |
| | <u>\$ 15,134</u> | <u>\$1,177,897</u> | <u>\$ 439,952</u> | <u>\$ 195,399</u> | <u>\$1,828,382</u> | <u>\$1,632,446</u> |

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Zion Recovery Services, Inc., as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Zion Recovery Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Zion Recovery Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Zion Recovery Services, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 16-I-A.

To the Board of Directors
Zion Recovery Services, Inc.

Compliance and Other Matters

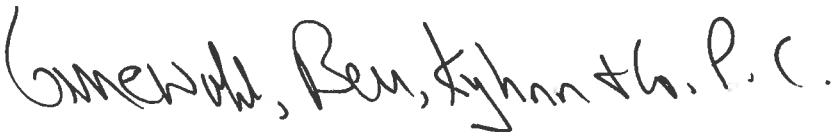
As part of obtaining reasonable assurance about whether the Zion Recovery Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Response to Findings

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Zion Recovery Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Ben Lyman, P.C." with a stylized, cursive script.

Atlantic, Iowa
September 13, 2016

ZION RECOVERY SERVICES, INC.

Schedule of Findings and Responses

Year ended June 30, 2016

PART I: REPORTABLE CONDITIONS

16-I-A Segregation of Duties: One person has the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. However, this is not uncommon for businesses of this size.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

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